

Cobb County Purchasing Policy

Use of Life Cycle Cost Analysis in Procurements

Approved by the Cobb County Government Board of Commissioners on: August 26, 2008

Purpose: To provide, as an option, the use of Life Cycle Cost Analysis (LCCA) methodology to determine the total cost of ownership in the evaluation and as a basis for award of certain bids.

Background: The County's procurement policy historically called for all commodity and equipment purchases valued at \$1,000 or greater to receive bids or quote requests. Awards were made to the responsive and responsible vendors who submitted a bid/quote with the lowest price for initial acquisition, delivery and, in certain instances, installation cost only. LCCA offers the opportunity to consider the long term costs of ownership of the acquired item as the basis or as a supplemental basis of selection.

Methodology: LCCA provides an acquisition method that is consistent with the concept of sustainability and also drives the concept of lowest cost of ownership and best value of the equipment purchased.

Life Cycle Costing begins with the acquisition of the product or service, and includes all the associated cost(s) of ownership, such as purchase price, shipping, maintenance and repair, longevity, and includes disposition cost(s) at the end of life. The initial acquisition price is adjusted with additional cost streams expected to occur over the anticipated life of the product or equipment. These additional cost streams must be clearly thought out costs or adjustments (i.e. time value of money, cost uncertainty, inflation factors), and must be based upon reasonable assumptions. Cost streams are discrete elements of costs that relate to the particular purchase considered for Life Cycle Costing. In some cases cost streams may include negative costs or savings that are expected to result in a particular cost stream.

Use: Life Cycle Cost methodology is permitted for either an Invitation to Bid (ITB) or a Request for Proposal (RFP) for products or equipments. County agencies may consider using LCCA whenever the costs of system operation, support, and disposal, and other quantifiable costs are significant in comparison with the cost of acquisition and are above the then current sealed bid threshold (currently greater than \$29,999).

There are a number of established LCCA that have become industry standards for various items e.g. autos and trucks. These can be the basis of a LCCA. Departments may also propose their own LCCA with appropriate justification/documentation.

Use of LCCA in procurements requires prior approval by a LCCA committee to be approved by the County Manager and chaired by the Purchasing Director.

Requirements:

1. When utilizing LCCA as the basis of an award, the solicitation must advise prospective offerors how Life Cycle Costing will be considered in an award decision.
2. Awards may be made based on lowest evaluated cost resulting from LCCA. Under this approach, the evaluation includes Life Cycle Costs in the solicitation issued.
3. Awards of Invitations to Bid to the lowest Bidder include the total Life Cycle Costs as a part of the bid evaluation methodology and award. The lowest total Life Cycle Cost is considered the low Bid; or
4. Awards of RFPs may include a Life Cycle Costing award factor in two ways:
 - a. The RFP may include Life Cycle Costs as a part of the total points awarded for costs. In this method, all Life Cycle Costs are calculated and the lowest total Life Cycle Cost is awarded the maximum points allocated for cost in the RFP; or
 - b. The RFP may include a separate Life Cycle Cost Factor that is assessed as weight or points and is considered in addition to other factors in the proposal evaluation methodology. As a separate evaluation factor, it may be used in addition to costs, when the cost factor does not consider Life Cycle Costing elements.

5. The Solicitation:

The solicitation must provide relevant information (e.g., projected item usage, operating environment, the operating period, and other information that will be considered in the evaluation of the offer).

It may include projections and estimates of life and cycle times from independent third party sources. The solicitation must describe how Life Cycle Cost will be applied in the award process. Factors not described in the solicitation may not be used in the evaluation.

The solicitations must describe what relevant costs, along with appropriate information to support life costs, the Offer must provide. Typical elements used in Life Cycle Costing Awards may include:

- a. Average unit price, including (when appropriate) recurring and nonrecurring production costs;
- b. Delivery, shipping and transportation costs;

- c. Switching costs prepared by originating department that include a reasonable estimate of what it will cost to switch from a current product or brand to another;
- d. Unit operating and support costs (e.g., manpower, energy, parts requirements, scheduled maintenance, and training);
- e. Unit disposal costs (e.g., the cost of removing equipment from the Contracting Agency facility);
- f. Unit salvage or residual value; and
- g. Related information as requested to support costs such as testing and operational data.

6. Award Decision:

- a. Invitation to Bid - using Life Cycle Cost methods, the award must be made to the responsible firm whose responsive offer provides the lowest overall cost of ownership in accordance with the Life Cycle Cost evaluation factors listed in the solicitation document.
- b. Request for Proposal - using Life Cycle Cost methods, the award must be made to the responsible firm whose responsive offer, after consideration of Life Cycle Cost factors as a part of price evaluation, and other factors listed in the solicitation document are determined to be the most advantageous or best proposal for Cobb County.